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SUBJECT: OIL INDUSTRY CONTACTS TALK INVESTMENTS, PROJECT  
KUWAIT, AND MANAGEMENT CHANGES

REF: KUWAIT 4770

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**¶11.** (SBU) Summary and Comment: In the first two weeks of December, Econ Officer heard from a number of oil industry contacts that, while the GOK and the Kuwait oil industry are serious about investment in increasing upstream and downstream capacity, a bottleneck remains in bringing concepts to fruition. While many contacts said that Kuwait's recent public announcement of \$44 billion in new investment by 2020 was a bit ambitious, other contacts were of the opinion that Kuwait could absorb at least that amount and more, if contracting could just move faster. Most oil industry contacts said that the Kuwait Project law would likely pass the National Assembly, if it comes up for a vote on January 16th as the GOK has requested. Whether the IOCs will be satisfied with the terms presented to them after that remains to be seen. One oil industry analyst with a long history and good contacts with the KPC hierarchy offered his candid assessment of expected management changes at KPC, specifically noting the lack of "visionaries" in the field of managers and executives among those expected to ascend to the top leadership posts in the next few years.

**¶12.** (SBU) Comment: Kuwait's recent announcements of investments and certain statements by Minister of Energy and current OPEC President Shaykh Ahmad Fahd Al-Ahmad Al-Sabah come on the heels of the visit by the U.S. Secretary of Energy to Kuwait, and the Secretary's requests for such statements from the leading oil producers (reftel). We hope to see further statements after the OPEC meeting this week in Kuwait. End Summary and Comment.

\$44 Billion In New Investments?

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**¶13.** (U) The GOK, through the Ministry of Energy (MoE) or Kuwait Petroleum Corporation (KPC), has made various statements over the past year regarding plans to increase upstream and downstream capacity. The latest came from MoE Undersecretary Issa Al-Own, who told reporters on December 8 that Kuwait has earmarked more than \$44 billion over the next 15 years (or about \$3 billion per year) to upgrade its oil facilities. This is part of KPC's "2020" plan, which aims to boost production from the current 2.5 million bpd to 4 mbpd by 2020.

**¶14.** (SBU) Econ Officer spoke with a number of well-placed oil industry contacts to gauge the reality behind this ambitious

investment program. Some contacts said that the number appeared high, but that the focus should not be on the amount pledged for new investments but whether KPC could eliminate some of the bureaucracy needed to move forward on these projects. Most contacts agreed with this sentiment, and many questioned whether KPC and the MoE had the capacity to actually see all of these projects through to completion.

¶ 15. (SBU) Kamel Harami, an oil analyst who used to work for a KPC subsidiary and is still well-connected with the KPC leadership, said that he thought that the \$44 billion figure was actually a conservative estimate and that the Kuwait oil industry could actually absorb more than the \$3 billion a year in new upstream and downstream investments that KPC envisions in its 15 year plan. He also cited the contracting approval process as the bottleneck, noting that in some cases "it takes 35 signatures just to get a small contract awarded."

Kuwait Project Up For January 16 Vote

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¶ 16. (SBU) According to December 7 news reports, the GOK has requested that the National Assembly hold a January 16 vote on the enabling law for the participation of foreign international oil companies (IOCs) in the development of Kuwait's northern oilfields (Kuwait Project). This follows a December 3 decision by the Assembly's new Financial and Economic Affairs Committee to refer the law to the full Assembly, and not review it again as some MPs had requested. Most oil industry contacts believe that the votes exist for the passage of the law, but they question whether the IOCs will be satisfied with the terms. Harami, the former KPC employee and current oil analyst, said that he had just heard

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that Kuwait's State Audit Bureau, acting on the request of National Assembly Speaker MP Jassem Al-Khorafi, had submitted a briefing on the project which includes some questions about the constitutionality of the enabling law. He said that he did not think that this would hold up the parliamentary debate, but that it would likely be included in any debate.

¶ 17. (U) On December 10, on the opening day of the second annual Kuwait International Petroleum Conference & Exhibition, organized around the theme "Meeting Future Demands Through Wise Decision," ExxonMobil Exploration Company Vice President Rick Vierbuchen made a direct case for the Kuwait Project in his keynote address. He noted that the purpose of bringing in IOCs was not to share what Kuwait was currently producing with foreign companies, but to expand the total value of resources that Kuwait could produce, and then give those companies a fair rate of return for doing so. Vierbuchen also pointed out to the audience that ExxonMobil and its partners in its Kuwait Project consortium (Shell, ConocoPhillips and Maersk) together spend about \$1 billion a year on research and development (R&D). If this spending continued, which Vierbuchen projected it would, then throughout the twenty-year life of the project, this particular consortium would also be contributing its \$20 billion in R&D to the project.

¶ 18. (SBU) Vierbuchen's address was followed by a presentation by oil analyst Kamel Harami, who also supported the Kuwait Project and offered a number of justifications for its passage. In a private conversation with Econ Officer, Harami said that he believed the law would pass, and he said that he did not think it would have a chance of passing through the National Assembly under any other Energy Minister except for the current one. He also said that the Kuwait Project division within KPC was "losing people" and having a hard time retaining some of the employees that had come there from other KPC divisions.

Changes At The Top

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¶ 9. (SBU) Harami also privately shared with Econ Officer his assessment of the top leadership at KPC and the Ministry of Energy and of potential changes in the next year or two. He said that Ministry of Energy Undersecretary Issa Al-Own's term has expired but that he is "being kept by the Minister until a suitable replacement could be found." He was not sure why Al-Own is still around, "because certainly there are suitable replacements available," but he did not want to speculate on how long Al-Own would remain in his position. Harami, formerly President of the KPC subsidiary Kuwait Petroleum International (KPI) is much more familiar with the KPC structure than with the Ministry. He said that KPC CEO Hani Hussain "might stay on until his term expires in September" but wanted out by the end of this year. He said that Hussain, like his predecessor Nader Al-Sultan and like Kuwait's OPEC Governor Siham Al-Razzouqi, is a "visionary" but that the next level of leadership within KPC is "light" and does not have similar people as qualified.

¶ 10. (SBU) Harami said that Petrochemical Industries Company (PIC) Chairman Saad Al-Shuwaib is the most likely successor to replace Hussain in the CEO position at KPC, but that he is "not as well-rounded" as Hussain, given that Al-Shuwaib's entire career has been with PIC. (Note: Hussain worked his way up the chain through a number of different KPC subsidiaries, including PIC, Kuwait National Petroleum Company, and the KPC Marketing division.) He said that KOC Chairman Farouk Al-Zanqi could also be in the running for the KPC CEO job, but that he might move to lead the Kuwait Project division if current Kuwait Project Managing Director (and former KOC Chairman) Ahmed Al-Arbeed leaves.

¶ 11. (SBU) Harami explained that while Al-Arbeed might have also been a contender for the KPC CEO job, he is "currently on the outs with the Minister," because of his involvement in the Dana Gas company, based in the U.A.E. He said that Al-Arbeed had gotten involved in the U.A.E.-based publicly traded company without the Minister's permission, and that he might leave the Kuwait oil industry completely and go into the private sector. (Note: Al-Arbeed is on the Board of Directors of Dana Gas. The company was established in Sharjah in September 2005 and was initially listed on the Abu Dhabi Stock Market.)

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